

**REPORT OF THE AUDIT OF THE  
CLINTON COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
May 16, 2009 Through April 15, 2010**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
CLINTON COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
May 16, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Clinton County Sheriff for the period May 16, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,539,799 for the districts for 2009 taxes, retaining commissions of \$104,315 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,429,306 to the districts for 2009 taxes. Taxes of \$2,392 are due to the districts from the Sheriff and refunds of \$61 are due to the Sheriff from the taxing districts.

**Report Comments:**

- 2009-01 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2009-02 The Sheriff Should Deposit Funds Intact On A Daily Basis
- 2009-03 The Sheriff Did Not Distribute Interest Earned On Tax Collections To The School District And His Fee Account
- 2009-04 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

**Deposits:**

The Sheriff's deposits as of December 3, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$376,483

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Lyle Huff, Clinton County Judge/Executive  
Honorable Ricky Riddle, Clinton County Sheriff  
Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the Clinton County Sheriff's Settlement - 2009 Taxes for the period May 16, 2009 through April 15, 2010. This tax settlement is the responsibility of the Clinton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clinton County Sheriff's taxes charged, credited, and paid for the period May 16, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Lyle Huff, Clinton County Judge/Executive  
Honorable Ricky Riddle, Clinton County Sheriff  
Members of the Clinton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account
- 2009-02 The Sheriff Should Deposit Funds Intact On A Daily Basis
- 2009-03 The Sheriff Did Not Distribute Interest Earned On Tax Collections To The School District And His Fee Account
- 2009-04 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen  
Auditor of Public Accounts

September 27, 2010



CLINTON COUNTY  
RICKY RIDDLE, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 16, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 199,344	\$ 330,698	\$ 1,359,811	\$ 434,285
Tangible Personal Property	19,489	34,106	75,021	78,427
Fire Protection	961			
Increases Through Exonerations	19	31	129	41
Franchise Taxes	18,138	30,613	92,413	
Additional Billings	26	43	176	56
Oil and Gas Property Taxes	4,333	7,188	29,559	9,440
Limestone, Sand, and Mineral Reserves	112	185	761	243
Penalties	1,643	2,741	10,871	3,508
Adjusted to Sheriff's Receipt	55	134	177	(42)
	<u>244,120</u>	<u>405,739</u>	<u>1,568,918</u>	<u>525,958</u>
<u>Credits</u>				
Exonerations	833	1,382	5,599	1,791
Discounts	3,397	5,655	21,853	7,647
Delinquents:				
Real Estate	12,970	21,472	88,292	28,198
Tangible Personal Property	374	654	1,381	1,616
Franchise Taxes	213	364	1,245	
	<u>17,787</u>	<u>29,527</u>	<u>118,370</u>	<u>39,252</u>
Taxes Collected	226,333	376,212	1,450,548	486,706
Less: Commissions *	9,619	15,989	58,022	20,685
	<u>216,714</u>	<u>360,223</u>	<u>1,392,526</u>	<u>466,021</u>
Taxes Due	216,714	360,223	1,392,526	466,021
Taxes Paid	216,425	359,708	1,387,875	465,298
Refunds (Current and Prior Year)	328	532	2,264	723
	<u>216,425</u>	<u>359,708</u>	<u>1,387,875</u>	<u>465,298</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (39)</u>	<u>\$ (17)</u>	<u>\$ 2,387</u>	<u>\$ 0</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY  
RICKY RIDDLE, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES  
For The Period May 16, 2009 Through April 15, 2010  
(Continued)

\* Commissions:

4.25% on \$ 1,089,251  
4% on \$ 1,450,548

\*\* Special Taxing Districts:

Library District	\$	5
Health District		(12)
Extension District		(10)
		<hr/>

Due District or		
(Refunds Due Sheriff)	\$	(17)
		<hr/>

CLINTON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Clinton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLINTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2010  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 3, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$376,483

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 20, 2009 through April 15, 2010.

Note 4. Interest Income

The Clinton County Sheriff earned \$552 as interest income on 2009 taxes. As of September 27, 2010, the Sheriff owed \$302 in interest to the school district and \$250 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clinton County Sheriff collected \$15,157 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of September 27, 2010, the Sheriff owed \$283 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Lyle Huff, Clinton County Judge/Executive  
Honorable Ricky Riddle, Clinton County Sheriff  
Members of the Clinton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Clinton County Sheriff's Settlement - 2009 Taxes for the period May 16, 2009 through April 15, 2010, and have issued our report thereon dated September 27, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Clinton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2009-04 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-03 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clinton County Sheriff's Settlement - 2009 Taxes for the period May 16, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-03.

The Clinton County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clinton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 27, 2010



## COMMENTS AND RECOMMENDATIONS



CLINTON COUNTY  
RICKY RIDDLE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period May 16, 2009 Through April 15, 2010

FINANCIAL STATEMENT FINDINGS:

2009-01 The Sheriff Should Not Loan Money To The Fee Account From The Tax Account

The Sheriff engaged in the practice of loaning money from the tax account to the fee account. On December 5, 2009, the Sheriff loaned \$41,170 to his 2009 fee account from the 2009 tax account. This was the amount of November tax collection commissions that was due from the Board of Education. On January 11, 2010, the Clinton County School Board paid the \$41,170 in tax commissions to the Sheriff. These monies were deposited into the 2009 tax account to cover the loan made to the 2009 fee account.

On February 10, 2010, the Sheriff loaned \$3,920 to his 2010 fee account from the 2009 tax account. This was the amount of January tax collection commissions that was due from the Board of Education. On April 7, 2010, the Clinton County School Board paid the \$3,920 in tax commissions to the Sheriff. These monies were deposited into the 2010 fee account, and are still owed to the 2009 tax account.

On June 10, 2010, the Sheriff deposited 2010 franchise tax collections totaling \$35,802 into the 2009 tax account. This error has not been corrected and the taxing districts have not received their share of these collections.

The receipts of the Sheriff's office appear to be regularly deposited into different bank accounts, which results in the need to "loan" monies from the tax account to the fee account. The Sheriff, because of lack of controls over his office, and lack of oversight has allowed this to happen.

When a lack of control or oversight over record keeping is exists, this type of situation is allowed to occur. The possible effects are shortages in various accounts, which may result in the inability to pay required amounts to taxing districts, vendors, etc. Also, the ability to properly budget for operations of the office becomes increasingly difficult.

We recommend the Sheriff refrain from making loans from the tax accounts to the fee accounts and pay back monies that are due to each account. Furthermore, we recommend the Sheriff immediately implement controls and oversight over his office so receipts are deposited in the appropriate account.

*Sheriff's Response: Clerical error. Money was deposited into wrong account.*

*Auditor's Reply: We agree the June 10, 2010 deposit was an error, however, it has not been corrected. The other dates noted above were loans to the fee account from the tax account.*

CLINTON COUNTY  
RICKY RIDDLE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period May 16, 2009 Through April 15, 2010  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2009-02 The Sheriff Should Deposit Funds Intact On A Daily Basis

During the course of the audit, we noted that deposits were not made in a timely manner. Our review indicated a total of 107 deposits were made into the 2009 tax account. The auditor found that 40 of these deposits did not clear the bank within three (3) business days. In addition, the auditor noted that three (3) of the deposits took over 20 business days to clear the bank.

The Sheriff lacks controls over the deposit process and does not provide adequate oversight in this area.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft.

This finding has been addressed in prior year audits. However, the Sheriff has ignored auditor recommendations to remedy the issue.

We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily to comply with KRS 68.210.

*Sheriff's Response: Will correct.*

2009-03 The Sheriff Did Not Distribute Interest Earned On Tax Collections To The School District And His Fee Account

During the course of the audit, we noted that interest earned on the 2009 tax account was not distributed to the school district and the Sheriff's fee account. Based on our computations, we determined that \$302 is owed to the Clinton County School Board and \$250 is owed to the Sheriff's 2010 fee account.

In accordance with KRS 134.140(2) the Sheriff is required to pay to the school districts by the tenth of each month, that part of the investment earnings for the month, which is attributable to the investment of school taxes.

We recommend the Sheriff pay the amounts due, as noted above to the Clinton County School Board and his 2010 fee account. We further recommend that in the future, the Sheriff comply with KRS 134.140(2) by paying the amount of interest due to the school district in a timely manner.

*Sheriff's Response: Will correct.*

CLINTON COUNTY  
RICKY RIDDLE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period May 16, 2009 Through April 15, 2010  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2009-04 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

A lack of adequate segregation of duties exists over all accounting functions. During our review of internal controls, we noted the Sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, and prepares monthly tax reports.

Limited budget places restrictions on the number of employees the Sheriff can hire. When faced with limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

Additionally, because a lack of adequate segregation of duties existed and because the Sheriff did not provide strong oversight over the office, the following occurred:

- The Sheriff Did Not Make Deposits In A Timely Manner
- The Sheriff Did Not Distribute Interest Earned To The School Districts And His Fee Account
- The Sheriff Loaned Money To The Fee Account From The Tax Account

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source documents.

*Sheriff's Response: No Response.*

